

**Submission**

**No 12**

## **INQUIRY INTO CROSS CITY TUNNEL**

Organisation:

Name: Mr Bruce Loder

Telephone:

Date Received: 12/01/2006

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Theme:

Summary

10 January 2006

The Chairman,  
Joint Select Committee on the Cross City Tunnel,  
Parliament of NSW,  
Parliament House,  
Macquarie Street,  
Sydney, NSW, 2000.

Dear Sir,

Please accept my submission to the Inquiry into the Cross City Tunnel.

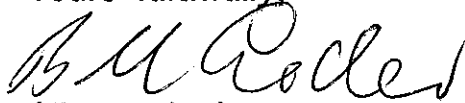
I note that six of the seven Terms of Reference are concerned more with the processes followed in framing and negotiating the contract rather than the content and merit of the contract itself.

While conceding the importance of ensuring that the processes followed conform to the standards expected in our democratic society I believe that it is equally important to ensure that the contract was initiated, negotiated and committed in the best interests of the community. My submission relates solely to Item 1 (g) of the Terms of Reference, which covers all related matters.

When no direct expenditure of public funds is involved governments appear to overlook the hidden costs to the community and may not follow the normal procedures of project selection or financial evaluation.

Based on a lifetime of experience in the administration, provision and operation of public roads I believe there are serious shortcomings in the current Cross City Tunnel contract and cannot overemphasise the importance of your pursuing and exposing those aspects with a view to possible rectification of the current unsatisfactory situation and avoiding similar problems in the future.

Yours faithfully,

  
( B N Loder )

# **INQUIRY INTO THE CROSS CITY TUNNEL**

by

## **A JOINT SELECT COMMITTEE**

of

### **THE PARLIAMENT OF NEW SOUTH WALES**

#### **SUBMISSION by BRUCE N LODER**

Bruce Loder was Commissioner for Main Roads, forerunner to the Roads and Traffic Authority, from 1981 to 1986.

He was Commissioner when the ground breaking Harbour Tunnel contract was drawn up and let. Early in his retirement he promoted the construction of toll roads, in particular the M4 & the M5, with the state government, and subsequently was involved in the construction and operation of the M4.

While serving as President of the Australian Road Federation (now the Australian Road Forum) Mr Loder's advice in respect of tolling certain sections of national roads was sought and acted upon by the Federal Minister of Transport.

## Scope of Inquiry

Terms of Reference 1(a) through 1(f) appear to focus on the procedures followed by and the roles and responsibilities of the various parties involved in negotiating the contract as opposed to the merits of the contract.

This submission addresses the more fundamental issues embraced by Terms of Reference 1(g) viz: project selection, method of financing the project and scope of the contract.

When financiers took the leading role from engineers in developing toll road projects the principal objective appeared to shift from providing an efficient traffic facility to generating an income stream. Swayed by the concept that "no government expenditure is involved", governments may be persuaded to embark on high profile projects without subjecting them to the normal scrutiny. This may have led to the current unfortunate situation facing both the Cross City tunnel providers and their potential customers.

### 1 (g) ( i ) Project Selection

It is not clear what construction of the tunnel was intended to achieve and what, if any, alternative solutions were considered.

If intended to provide a by-pass of the CBD for through traffic originating from the west a more southerly location may have been more suitable.

There is already an effective by pass for traffic originating from the north.

If intended to augment the capacity of William Street it would be inappropriate to reduce the capacity of that street as proposed under the contract.

Road projects typically provide a high economic return for the investment. Consequently, the only projects which proceed as a rule are those which will return benefits substantially in excess of their cost. The extraordinary measures required under the contract to augment the traffic volume using the tunnel and the relatively high toll imposed indicate that the Cross City Tunnel is not commercially viable as a toll road and that it may not provide a positive economic return to the community when full account is taken of the total cost to the community.

## 2.

The Inquiry might well explore whether normal criteria were used to assess the economic merits of the tunnel solution as ultimately adopted, including total cost to the community incurred as a consequence of the contractual requirements to enhance tunnel traffic flow.

It is immaterial that the project does not involve direct expenditure of public funds by the government. Ultimately the total cost will be met by the community, whether paid to the tunnel consortium in tolls or through additional costs incurred as a consequence of measures taken to enhance tunnel traffic flow.

### **1 (g) ( ii ) Method of Financing Project.**

The inclusion of clauses in the contract requiring the imposition of traffic control on other public roads, designed purely to divert traffic to the tunnel, indicates that the project was recognised from the outset as not being commercially viable. Under these circumstances it is difficult to comprehend why private tolling was chosen as the method to finance the project.

While tolling has valid applications in road funding it is not always the most efficient or equitable means, particularly when superimposed on the road financing system currently used universally throughout Australia.

Traditionally public roads in Australia have been financed from State Government motor vehicle taxation augmented by up to about 50% from other sources of taxation, the latter coming almost entirely from the Federal Government.

In the past tolls have only been relied upon in Australia to finance some major road works which were essentially important stand alone additions to the existing road system. Examples are the Sydney Harbour Bridge and Tunnel, the F3, M2, M4, M5 and M7.

All of these involved a massive investment specifically to provide high quality service on a segment of the road system and it is equitable that those who benefit should contribute to the cost. In effect, in those cases tolling provides a mechanism to extract from those who profit most from the investment some of the benefit they receive.

### 3.

It has always been a firm principle that the existing roads which the toll works supplemented were retained in pre-existing condition. Tolling is only an equitable and efficient method of financing those works if the patronage obtained under that condition is sufficient to pay for its construction and operation. This has proved to be so in all the examples quoted except the M7 and there is every expectation that this also will prove to be a very successful enterprise.

When a tolled road is superimposed on an existing road system it attracts away from the pre-existing alternative routes those drivers who consider the benefits its superior travel conditions provide to equal or exceed the cost of the toll. The traffic volumes on those routes are reduced to the benefit of those continuing to use them. Everyone gains and the main beneficiaries meet the cost of the toll work from the benefits they obtain from it.

If the principle of retaining the status quo on the existing road system is not adhered to, as applies with the Cross City Tunnel, the economics of the project are completely distorted.

In that particular case the constrictions imposed on alternative routes increase the cost of travel on them to a level at which some traffic diverts to the tunnel and pays the toll, some diverts to other alternative routes at additional cost to themselves and to the detriment of those normally using those routes and some abandon the journey entirely. The total cost of travel is increased not only to those who gain some benefit from the tunnel but also to many for whom the tunnel is of no benefit at all. In addition the higher transport costs and restrictions on access would result in loss of business and a decrease in property values. The total cost to the community (which ultimately pays irrespective of the financing method) is increased substantially.

Tolls are useful in rationing scarce road space. In heavily congested urban areas, imposition of a toll provides a very effective means to monitor demand in peak periods, ensuring that traffic which places a high value on time can mostly enjoy free flow conditions on the tolled facility.

However, all traffic does not value time to the same extent. Unfortunately it is not possible to save time, it can only be spent. When faced with the option of paying a fee to reduce travel time road users have to decide whether they can use the difference in travel time more profitably than the toll would cost.

#### 4.

The peak period traffic in the city has a high commuter content which is reluctant to pay cash to reduce travel time. Time spent on the journeys to and from work is perceived as an extension to the working day and commuters are prepared to trade untaxed travel time for cash paid as a toll which is taxed at their marginal rates. Commuters who pay an extra \$7 a day in tolls have to earn an extra \$35 plus tax at their marginal rate each week to retain their spending power.

Had the contract been let on the normal basis without the road constrictions and closures, the only traffic to use the tunnel would be that which perceived a benefit equal to or greater than the toll. Traffic on alternative routes would benefit from easier conditions resulting from diversion of some traffic to the tunnel. The greater the number attracted to the tunnel the greater the overall benefit to the community. There would be an optimum amount to charge as a toll to maximise the return to the operator while maintaining a substantial benefit to the community. Not only would the community benefit as a whole, but no individual member would lose.

Ultimately the community will have to pay for the tunnel and the cost will be higher and the benefits achieved will be lower under the current contract. Assuming that ultimately the tunnel operators are reimbursed through tolls the cost of the project plus profit, the ultimate cost to the community will be substantially greater than under a normal contract.

#### **1 (g ) (iii) Scope of Contract**

The contract for the Cross City Tunnel includes works extraneous to those necessary for the construction and operation of the tunnel. These are works designed purely to impose restrictions on traffic movement on other public roads in order to augment tunnel usage by diverting traffic which otherwise would not use the tunnel.

The purpose of those works is to impede rather than benefit traffic movement in the expectation that some of the adversely affected traffic will divert to the tunnel and pay a fee to enhance the financial return of the tunnel consortium. No New South Wales road authority other than the Roads and Traffic Authority can regulate traffic on the roads under their jurisdiction for such a purpose. However, current legislation introduced in 2002 permits the Roads and Traffic Authority to regulate

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traffic "for any purpose".

This raises the question whether legislation can or should authorise government authorities to take action for any purpose. If in doing so the authority infringed the law or even misused the powers entrusted to it would the authority and any other party involved in that action be protected from the consequences which might normally be incurred.

Perhaps the Inquiry might explore whether the inclusion of the contract arrangements relating to imposing restrictions on traffic movement on other public roads in order to augment tunnel usage by diverting traffic which otherwise would not use the tunnel is valid and if not whether the contract should be renegotiated following their exclusion.